THIRD DIVISION

[G.R. No. 108052. July 24, 1996]

PHILIPPINE NATIONAL BANK, *petitioner, vs.* THE COURT OF APPEALS and RAMON LAPEZ,[1] doing business under the name and style SAPPHIRE SHIPPING, respondents.

D E C I S I O N

PANGANIBAN, *J.*:

Does a local bank, while acting as local correspondent bank, have the right to intercept funds being coursed through it by its foreign counterpart for transmittal and deposit to the account of an individual with another local bank, and apply the said funds to certain obligations owed to it by the said individual?

Assailed in this petition is the Decision of respondent Court of Appeals[2] in CA-G.R. CV No. 27926 rendered on June 16, 1992 affirming the decision of the Regional Trial Court, Branch 107 of Quezon City, the dispositive portion of which read:[3]

"WHEREFORE, judgment is hereby rendered:

1) In the main complaint, ordering the defendant (herein petitioner PNB) to pay the plaintiff (private respondent herein) the sum of US$2,627.11 or its equivalent in Philippine currency with interest at the legal rate from January 13, 1987, the date of judicial demand;

2) The plaintiff's supplemental complaint is hereby dfismissed (sic);

3) The defendant's counterclaims are likewise dismissed.

The Facts

The factual antecedents as quoted by the respondent Court are reproduced hereinbelow, the same being undisputed by the parties:[4]

"The body of the decision reads:

"'After a close scrutiny and analysis of the pleadings as well as the evidence of both parties, the Court makes the following conclusions:

"'(a) The defendant applied/appropriated the amounts of $2,627.11 and P34,340.38 from remittances of the plaintiff's principals (sic) abroad. These were admitted by the defendant, subject to the affirmative defenses of compensation for what is owing to it on the principle of solution (sic) indebiti;

"'(b) The first remittance was made by the NCB of Jeddah for the benefit of the plaintiff, to be credited to his account at Citibank, Greenhills Branch; the second was from Libya, and was intended to be deposited at the plaintiff's account with the defendant, No. 830-2410;

(c) The plaintiff made a written demand upon the defendant for remittance of the equivalent of P2,627.11 by means of a letter dated December 4, 1986 (Exh. D). This was answered by the defendant on December 22, 1986 (Exh. 13), inviting the plaintiff to come for a conference;

"'(d) There were indeed two instances in the past, one in November 1980 and the other in January 1981 when the plaintiff's account No. 830-2410 was doubly credited with the equivalents of $5,679.23 and $5,885.38, respectively, which amounted to an aggregate amount of P87,380.44. The defendant's evidence on this point (Exhs. 1 thru 11, 14 and 15; see also Annexes C and E to defendant's Answer), were never refuted nor impugned by the plaintiff. He claims, however, that plaintiffs claim has prescribed.

"'(e) Defendant PNB made a demand upon the plaintiff for refund of the double or duplicated credits erroneously made on plaintiff's account, by means of a letter (Exh. 12) dated October 23, 1986 or 5 years and 11 months from November 1980, and 5 years and 9 months from January 1981. Such letter was answered by the plaintiff on December 2, 1986 (Annex C, Complaint). This plaintiff's letter was likewise replied to by the defendant through Exh. 13;

"'(f) The deduction of P34,340.38 was made by the defendant not without the knowledge and consent of the plaintiff, who was issued a receipt No. 857576 dated February 18, 1987 (Exh. E) by the defendant.

"'There is no question that the two erroneous double payments made to plaintiff's accounts in 1980 and 1981 created an extra-contractual obligation on the part of the plaintiff in favor of the defendant, under the principle of *solutio indebiti,* as follows:

"'If something is received when there is no right to demand it, and it was unduly delivered throughg (sic) mistake, the obligation to return it arises.'" (Article 2154, Civil Code of the Phil.)

Two issues were raised before the trial court, namely, *first,* whether the herein petitioner was legally justified in making the compensation or set-off against the two remittances coursed through it in favor of private respondent to recover on the double credits it erroneously made in 1980 and 1981, based on the principle of *solutio indebiti, and second,* whether or not petitioner's claim is barred by the statute of limitations. The trial court's ratiocination, as quoted by the appellate Court, follows:[5]

"'Article 1279 of the Civil Code provides:

"'In order that compensation may prosper, it is necessary:

(1) That each one of the obligors be bound principally, and that he be at the same time a principal creditor of the other;

(2) That both debts consists in a sum of money, or if the things due are consumable, they be of the same kind, and also of the same quality if the latter has been stated;

(3) That the two debts be due;

(4) That they be liquidated and demandable;

(5) That over neither of them there by any retention or controversy, commenced by third persons and communicated in due time to the debtor.'"

"'In the case of the $2,627.11, requisites Nos. 2 through 5 are apparently present, for both debts consist in a sum of money, are both due, liquidated and demandable, and over neither of them is there a retention or controversy commenced by third persons and communicated in due time to the debtor. The question, however, is, where both of the obligors bound principally, and was each one of them a debtor and creditor of the other at the same time?

"'Analyzing now the relationship between the parties, it appears that:

"'(a) With respect to the plaintiff's being a depositor of the defendant bank, they are creditor and debtor respectively (Guingona, *et al*. *vs.* City Fiscal, *et al*., 128 SCRA 577);

"'(b) As to the relationship created by the telexed fund transfers from abroad: A contract between a foreign bank and local bank asking the latter to pay an amount to a beneficiary is a stipulation *pour autrui.* (Bank of America NT & SA *vs.* IAC, 145 SCRA 419).

"'A stipulation *pour autrui* is a stipulation in favor of a third person (Florentino *vs*. Encarnacion, 79 SCRA 193; Bonifacio Brothers *vs.* Mora, 20 SCRA 261; Uy Tam *vs.* Leonard, 30 Phils. 475).

"'Thus between the defendant bank (as the local correspondent of the National Commercial Bank of Jeddah) and the plaintiff as beneficiary, there is created an implied trust pursuant to Art. 1453 of the Civil Code, quoted as follows:

"'When the property is conveyed to a person in reliance upon his declared intention to hold it for, or transfer it to another or the grantor, there is an implied trust in favor of the person whose benefit is contemplated (sic).

"'c) By the principle of *solutio indebiti* (Art. 2154, Civil Code), the plaintiff who unduly received something (sic) by mistake (i.e., the 2 double credits, although he had no right to demand it), became obligated to the defendant to return what he unduly received. Thus, there was created between them a relationship of obligor and obligee, or of debtor and creditor under a quasi-contract.

"In view of the foregoing, the Court is of the opinion that the parties are not both principally bound with respect to the $2,627.11 from Jeddah neither are they at the same time principal creditor of the other. Therefore, as matters stand, the parties' obligations are not subject to compensation or set off under Art. 1279 of the Civil Code, for the reason that the defendant is not a principal debtor nor is the plaintiff a principal creditor insofar as the amount of $2,627.11 is concerned. They are debtor and creditor only with respect to the double payments; but are trustee-beneficiary as to the fund transfer of $2,627.11.

"'Only the plaintiff is principally bound as a debtor of the defendant to the extent of the double credits. On the other hand, the defendant was an implied trustee, who was obliged to deliver to the Citibank for the benefit of the plaintiff the sum of $2,627.11.

"'Thus while it may be concluded that the plaintiff owes the defendant the equivalent of the sums of $5,179.23 and $5,885.38 erroneously doubly credited to his account, the defendant's actuation in intercepting the amount of $2,627.11 supposed to be remitted to another bank is not only improper; it will also erode the trust and confidence of the international banking community in the banking system of the country, something we can ill afford at this time when we need to attract and invite deposits of foreign currencies.'"

"It would have been different has the telex advice from NCB of Jeddah been for deposit of $2,627.11 to plaintiffs account No. 830-2410 with the defendant bank. However, the defendant alleged this for the first time in its Memorandum (Pls. see par. 16, p. 6 of defendant's Memorandum). There was neither any allegation thereof in its pleadings, nor was there any evidence to prove such fact. On the contrary, the defendant admitted that the telex advice was for credit of the amount of $2,627.11 to plaintiffs account with Citibank, Greenhills, San Juan, MetroManila (Pls. see par. of defendant's Answer with Compulsory Counterclaim, in relation to plaintiff's Complaint). Hence, it is submitted that the set-off or compensation of $2,627.11 against the double payments to plaintiff's account is not in accordance with law.

"'On this point, the Court finds the plaintiff's theory of agency to be untenable. For one thing, there was no express contract of agency. On the other hand, were we to infer that there was an implied agency, the same would not be between the plaintiff and defendant, but rather, between the National Commercial Bank of Jeddah as principal on the one hand, and the defendant as agent on the other. Thus, in case of violation of the agency, the cause of action would accrue to the NCB and not to the plaintiff.

"'The P34,340.38 subject of the supplemental complaint is quite another thing. The plaintiff's Exh. "E", which is a receipt issued to the plaintiff by the defendant for the amount of P34,340.00 in "full settlement of accounts receivables with RICB Fund Transfer Department, PNB-Escolta base on Legal Department Memo dated February 28, 1987" seems to uphold the defendant's theory that the said amount was voluntarily delivered by the

plaintiff to the defendant as alleged in the last paragraph of defendant's memorandum. The same is in accordance with the defendant's answer, as follows:

"The retention and application of the amount of P34,340.38 was done in a manner consonant with basic due process considering that plaintiff was not only furnished documented proof of the cause but was also given the opportunity to con(tro)vert such Proof.

"Moreover, plaintiff, through counsel, communicated his unequivocal and unconditional consent to the retention and application of the amount in question." (Pls. see paragraphs 8-9, defendant's Answer with Compulsory Counterclaim to Plaintiff's Supplemental Complaint)."

This conclusion is borne by the fact that the receipt is in the hands of the plaintiff, indicating that such receipt was handed over to the plaintiff when he "paid" or allowed the deduction from the amount of $28,392.38 from Libya.

"'At any rate, the plaintiff in his Memorandum, stated that the subsequent fund transfer from Brega Petroleum Marketing Company of Libya (from where the P34,340.38 was deducted) was intended for credit and deposit in plaintiff's account at the defendant's Bank CA No. 830-2410 (per par. 1, page 2, Memorandum for the plaintiff). Such being the case, the Court believes that insofar as the amount of P34,340.38 is concerned, all the requirements of Art. 1279 of the Civil Code are present, and the said amount may properly be the subject of compensation or set-off. And since all the requisites of Art. 1279 of the Civil Code are present (insofar as the amount of P34,392.38 is concerned), compensation takes place by operation of law (Art. 1286, *Ibid.),* albeit only partial with respect to plaintiff's indebtedness of P7,380.44.

"Now, on the question of prescription, the Court believes that Art. 1149 as cited by the plaintiff is not applicable in this case. Rather, the applicable law is Art. 1145, which fixes the prescriptive period for actions upon a quasi-contract (such as *solutio indebiti)* at six years.

In the dispositive portion of its decision, the trial court ruled that the herein petitioner was obligated to pay private respondent the amount of US$2,627.11 or its peso equivalent, with interest at the legal rate. The court dismissed all other claims and counterclaims.

On appeal to the respondent Court, petitioner bank continued to insist that it validly retained the US$2,627.11 in payment of the private respondent's indebtedness by way of compensation or set-off, as provided under Art. 1279 of the Civil Code.

The respondent Court of Appeals rejected such argument, saying:

"The telegraphic money transfer was sent by the IBN, plaintiff's principal in Jeddah, Saudi Arabia, thru the National Commercial Bank of Jeddah, Saudi Arabia (NCB, for short), for the credit/account of Plaintiff with the Citibank, Greenhills Branch, San Juan, Metro Manila, coursed thru the PNB's head office, the NCB's corresponden(t) bank in the Philippines.

"The credit account, or simply account means that the amount stated in the telegraphic money transfer is to be credited in the account of plaintiff with the Citibank, and, in that sense, presupposes a creditor-debtor relationship between the plaintiff, as creditor and the Citibank, as debtor. Withal the telegraphic money transfer, no such creditor-debtor relationship could have been created between the plaintiff and defendant.

"The telegraphic money transfer, or simply telegraphic transfer(,) was purchased by the IBN from the NCB in Saudi Arabia, and since the PNB is the NCB's corresponden(t) bank in the Philippines, there is created between the two banks a sort of communication exchange for the corresponden(t) bank to transmit and/or remit and/or pay the value of the telegraphic transfer in accordance with the dictate of the correspondence exchange. Some such responsibility of the corresponden(t) bank is akin to Section 7 of the Rules and Regulations Implementing E.O. 857, as amended by E.O. 925, "x x x to take charge of the prompt payment" of the telegraphic transfer, that is, by transmitting the telegraphic money transfer to the Citibank so that the amount can be promptly credited to the account of the plaintiff with the said bank. That is all that the PNB can do under the remittance arrangement

that it has with the NCB. With its responsibility as defined as well as by the nature of its banking business and the responsibility attached to it, and through which the industry, trade and commerce of all countries and communities are carried on, the PNB's liability as corresponden(t) bank continues until it has completgely (sic) performed and discharged it(s) obligation thereunder." (underscoring ours)

Hence, the respondent Court affirmed the trial court's holding *in toto.*

Dissatisfied, petitioner bank comes before this Court seeking a review of the assailed Decision.

The Issue

Petitioner's arguments revolve around one single issue:[6]

"WHILE THE RESPONDENT COURT CORRECTLY FOUND PRIVATE RESPONDENT LEGALLY BOUND (UNDER THE PRINCIPLE OF SOLUTIO INDEBITI) TO RETURN TO PNB THE SUM OF US$2,627.11, IT ERRED IN NOT RULING THAT LEGAL COMPENSATION HAS TAKEN PLACE WHEN PNB WAS ORDERED BY THE TRIAL COURT TO RETURN TO PRIVATE RESPONDENT THE SAME AMOUNT. SUCH COURSE OF ACTION IS IN CONSONANCE WITH SPEEDY AND SUBSTANTIAL JUSTICE, AND WOULD PREVENT THE UNNECESSARY FILING OF A SUBSEQUENT SUIT BY PNB FOR THE COLLECTION OF THE SAME AMOUNT FROM PRIVATE RESPONDENT."

The Court's Ruling

We note that in framing the issue in the manner aforecited, the petitioner **implicitly admits** the correctness of the respondent Court's affirmance of the trial court's ruling finding herein petitioner liable to private respondent for the sum of US$2,627.11 or its peso equivalent. And it could not have done otherwise. After a careful scrutiny of both the decision of the trial court and that of the appellate court, we find no reversible error whatsoever in either ruling, and see no need to add to the extensive discussions already made regarding the non-existence of all the requisites for legal compensation to take place.

But petitioner has adopted a novel theory, contending that since respondent Court found that private respondent is "an obligor of PNB and the latter, as aforesaid, has become an obligor of private respondent (resulting in legal compensation), the (h)onorable respondent court should have ordered private respondent to pay PNB what the latter is bound by the trial court's decision to return the former.[7]

By this simplistic approach, petitioner in effect seeks to render nugatory the decisions of the trial court and the appellate Court, and have this Court validate its original misdeed, thereby making a mockery of the entire judicial process of this country. What the petitioner bank is effectively saying is that since the respondent Court of Appeals ruled that petitioner bank could not do a shortcut and simply intercept funds being coursed through it, for transmittal to another bank, and eventually to be deposited to the account of an individual who happens to owe some amount of money to the petitioner, and because respondent Court ordered petitioner bank to return the intercepted amount to said individual, who in turn was found by the appellate Court to be indebted to petitioner bank, THEREFORE, there must now be legal compensation of the amounts each owes the other, and hence, there is no need for petitioner bank to actually return the amount, and finally, that petitioner bank ends up in exactly the same position as when it first took the improper and unwarranted shortcut by intercepting the said money transfer, notwithstanding the assailed Decision saying that this could not be done!

We see in this petition a clever ploy to use this Court to validate or legalize an improper act of the petitioner bank, with the not impossible intention of using this case as a precedent for similar acts of interception in the future. This piratical attitude of the nation's premier bank deserves a warning that it should not abuse the justice system in its collection efforts, particularly since we are aware that if the petitioner bank had been in good faith, it could have easily disposed of this controversy in ten minutes flat by means of an exchange of checks with private respondent for the same amount. The litigation could have ended there, but it did not. Instead, this plainly unmeritorious case had to clog our docket and take up the valuable time of this Court.

WHEREFORE, the instant petition is herewith DENIED for being plainly unmeritorious, and the assailed Decision is AFFIRMED *in toto.* Costs against petitioner.

SO ORDERED.

Narvasa, C.J., (Chairman), Davide, Jr., and *Francisco, JJ.,* concur.
Melo, J., no part, being a member of the CA division which decided the case under review.

---

[1] Deceased and substituted by Teresita V. Lapez; *Rollo*, p. 51.